

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00
INRE-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01
OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-01
PA-01 PRS-01 FEAE-00 /080 W
-----311859Z 104034 /46

O R 311750Z MAR 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 3734

DEPT TREAS WASH DC IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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DIA

USMISSION EC BRUSSELS

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AMCONSUL NAPLES

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E.O. 11652: GDS

TAGS: ELAB, EFIN, IT, IMF

SUBJECT: ITALIAN GOVERNMENT AND LABOR AGREE ON AMENDMENTS TO
"FISCALIZATION" DECREE; SENATE PASSES AMENDED DECREE AND PAR-
LIAMENT PASSES EARLIER LABOR COST REDUCTION DECREE

1. SUMMARY. GOI AND CCU AGREED MARCH 30 ON AMENDMENTS TO GOI
"FISCALIZATION" DECREE TO ELIMINATE TWO ARTICLES UNIONS OPPOSE,
AND TO ALTER COST-OF-LIVING ESCALATOR (SCALA MOBILE) BASKET
TREATMENT OF COST OF NEWSPAPERS, MUNICIPAL TRANSIT AND ELEC-
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TRICITY. THE LATTER MEASURES WILL HAVE SLIGHTLY GREATER IMMEDIATE
DAMPENING EFFECT ON COST-OF-LIVING ESCALATOR (SCALA MOBILE)
AND ARE LESS OBJECTIONABLE TO UNIONS. ON MARCH 30, PARLIAMENT
COMPLETED APPROVAL OF EARLIER GOI DECREE ELIMINATING "ANOMOLOUS"
ESCALATOR SYSTEMS AND ENDING COST-OF-LIVING ESCALATOR INCREASES
IN SEVERANCE PAY. MOST ITALIANS ASSUME THAT THE LONG, AGONIZING
POLITICAL DRAMA OVER LABOR COST REDUCTION MEASURES IS FINALLY

DRAWING TO A CLOSE. HOWEVER, SOME MARCH 31 PAPERS REPORT THAT FINAL AGREEMENT WITH IMF ON STANDBY HAS NOT YET BEEN REACHED. END SUMMARY.

2. AFTER ALL NIGHT SESSION, PM ANDREOTTI AND HIS MINISTERS FINALLY REACHED AGREEMENT EARLY MARCH 30 WITH LEADERS OF NATIONAL TRI-CONFEDERAL LABOR FEDERATION CGIL-CISL-UIL (CCU) ON AMENDMENT OF GOI DECREE "FISCALIZING" PART OF EMPLOYERS' SOCIAL COSTS AND RAISING VALUE ADDED (IVA) AND MANUFACTURING TAXES TO FINANCE "FISCALIZATION" AND PUBLIC EMPLOYEES PAY INCREASES. CCU EXECUTIVE COMMITTEE RATIFIED AGREEMENT THAT AFTERNOON.

3. GOI AGREED TO ELIMINATE ARTICLE 3 (DISINCENTIVES AGAINST NEGOTIATING COMPANY-LEVEL WAGE INCREASES) AND 4 (IVA "STERILIZATION"). IN RETURN, CCU AGREED TO ALTERATION IN THE ESCALATOR "BASKET" OF SLIGHTLY GREATER EFFECT THAN THE IVA STERILIZATION: MONTHLY SUBSCRIPTION RATES FOR NEWSPAPERS AND MUNICIPAL TRANSIT AND A LOWER RATE FOR LIMITED ELECTRIC CONSUMPTION WILL BE SUBSTITUTED FOR THE NORMAL PRICES AND RATES FOR THESE ITEM NOW USED IN THE BASKET. (ACCORDING TO PRESS REPORTS AND UNION SOURCES, SHIFT TO LOWER NEWSPAPER, TRANSIT AND ELECTRICITY RATES IN BASKET WILL CAUSE ONE TIME COMBINED REDUCTION OF 1.49 ESCALATOR POINTS, AS WELL AS ALLOW FUTURE INCREASES IN STANDARD RATES WITHOUT AFFECTING ESCALATOR, WHEREAS IVA STERILIZATION WOULD HAVE REDUCED THE ESCALATOR IMMEDIATELY 1.26, AS WELL AS ALTERING FUTURE IVA INCREASES WITHOUT AFFECTING ESCALATOR). CCU ALSO REITERATED AND REINFORCED ITS EARLIER OFFER TO RESTRAIN COMPANY-LEVEL LIMITED OFFICIAL USE

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WAGE DEMANDS, AND GOI MADE SOME LIMITED INVESTMENT COMMITMENTS. THE POLITICAL PARTIES HAD ALREADY AGREED TO APPROVE AMENDED DECREE WITHOUT ANY DIFFICULTIES, PROVIDED THE CCU WOULD AGREE.

4. ACCORDING TO A CISL SOURCE, AND SOME PRESS ACCOUNTS, PM ANDREOTTI AND CCU SEC GEN LAMA, MACARIO AND BENVENUTO ACTUALLY AGREED NIGHT OF MARCH 28-29 TO COMPROMISE BY ADDING ELECTRIC RATES, BUT NOT POSTAL, RAIL AND GAS RATES AS ASKED BY GOI, TO CCU'S PREVIOUS OFFER TO MODIFY BASKET TREATMENT OF NEWSPAPER AND TRANSIT RATES. CCU EXECUTIVE COMMITTEE MEETING MARCH 29 WHILE OSTENSIBLY AUTHORIZING CCU LEADERS ONLY TO RETIERATE NEWSPAPER AND TRANSIT OFFER, ACTUALLY AUTHORIZED THEM TO CONCEDE ON ELECTRIC RATES TOO, IF NECESSARY, CISL SOURCE SAID. TV AND PRESS ALSO REPORTED THAT ANDREOTTI SPOKE SEPARATELY TO AMERICAN AND GERMAN AMBASSADORS MARCH 29, ASKING THEM TO URGE THEIR GOVERNMENTS TO SUPPORT IMF APPROVAL OF THE COMPROMISE SOLUTION. REPORTEDLY, MUCH OF THE MARCH 29-30 ALL NIGHT SESSION WAS SPENT AWAITING

TELEPHONE CONTACT WITH FINANCE MINISTER STAMMATI IN WASHINGTON ABOUT HIS TALKS WITH IMF. ONLY AFTER NADREOTTI TALKED WITH STAMMATI WAS AGREEMENT FINALLY CONCLUDED. CCU EXECUTIVE COMMITTEE RATIFICATION MARCH 30 WAS THEN A FOREGONE CONCLUSION.

5. GOI AND CONFINDUSTRIA INITIALED CCU AGREEMENT MARCH 00 AFTER INITIAL OBJECTION BY CONFINDUSTRIA ABOUT ITS NOT HAVING PARTICIPATED IN THE TALKS. SENATE APPROVED AMENDED DECREE MARCH 31 AND CHAMBER IS EXPECTED TO APPROVE IT PROMPTLY.

6. ON MARCH 30, THE PARLIAMENT COMPLETED ACTION ON AN EARLIER GOI LABOR COST REDUCTION DECREE IMPLEMENTING THE CCU-CONFINDUSTRIA AGREEMENT, WHICH SEPARATED SEVERANCE PAY FROM THE ESCALATOR SYSTEM PERMANENTLY AND ELIMINATED SPECIAL, MORE FAVORABLE ("ANOMOLOUS") ESCALATOR SYSTEMS OF SPECIAL CATEGORIES OF EMPLOYEES.

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7. MOST PRESS COVERAGE AND UNION COMMENTARY ABOUT AGREEMENT ASSUMES THAT IT SATISFIED IMF REQUIREMENTS FOR STANDBY AGREEMENT. INDEED, MANY MARCH 31 HEADLINES PROCLAIM THAT LOAN IS ALREADY ASSURED. HOWEVER, AT LEAST TWO NEWSPAPERS REPORT THAT FINAL AGREEMENT WITH IMF HAS NOT BEEN REACHED. GARDNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: UNION GOVERNMENT RELATIONS, AGREEMENTS, AMENDMENTS, ECONOMIC PROGRAMS
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Copy: SINGLE
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Expiration:
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From: ROME
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Legacy Key: link1977/newtext/t1977032/aaaaabpn.tel
Line Count: 145
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Litigation History:
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Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
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Review Action: RELEASED, APPROVED
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Review Event:
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2990158
Secure: OPEN
Status: NATIVE
Subject: ITALIAN GOVERNMENT AND LABOR AGREE ON AMENDMENTS TO "FISCALIZATION" DECREE; SENATE PASSES AMENDED DECREE AND PARLIAMENT PASSES EARLIER LABOR COST REDUCTION DECREE
TAGS: ELAB, EFIN, IT, IMF
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/a01dd0b1-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009